

# STATE OF FLORIDA AUDITOR GENERAL

Financial, Operational, and Federal Single Audit

Report No. 2016-118  
March 2016

## HENDRY COUNTY DISTRICT SCHOOL BOARD

For the Fiscal Year Ended  
June 30, 2015



Sherrill F. Norman, CPA  
Auditor General

## Board Members and Superintendent

During the 2014-15 fiscal year, Paul K. Puletti served as Superintendent and the following individuals served as Board members:

	<u>District No.</u>
Dwayne E. Brown, Chair from 11-18-14	1
Dr. Sally Berg, Vice Chair from 11-18-14	2
Patrick B. Langford, <sup>a</sup> Chair to 11-17-14	3
John Benkert from 5-29-15 <sup>b</sup>	3
John Perry to 11-17-14, Vice Chair	4
Stephanie Busin from 11-18-14	4
Jon Basquin from 7-15-14 <sup>c</sup>	5

Notes: <sup>a</sup>Board member resigned on February 15, 2015, and position remained vacant through May 28, 2015.

<sup>b</sup>Governor appointed Board member on May 29, 2015.

<sup>c</sup>Position remained vacant from July 1, 2014, through July 14, 2014. Governor appointed Board member on July 15, 2014, and Board member was elected to position on August 26, 2014.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The team leader was Camesha N. Brown, and the audit was supervised by Deirdre F. Waigand, CPA.

Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Supervisor, by e-mail at [dougconner@aud.state.fl.us](mailto:dougconner@aud.state.fl.us) or by telephone at (850) 412-2730.

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# SUMMARY

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## SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the District's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

## SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States; however, we noted certain additional matters as summarized below.

### Additional Matters

**Finding 1:** The District needs to continue to strengthen controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

**Finding 2:** Some unnecessary and inappropriate information technology (IT) access privileges continue to exist.

**Finding 3:** District management needs to develop a comprehensive, written IT risk assessment. A similar finding was noted in our report No. 2015-137.

## SUMMARY OF REPORT ON FEDERAL AWARDS

We audited the District's compliance with applicable Federal awards requirements. The Child Nutrition Cluster and Migrant Education programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that could have a direct and material effect on each of its major Federal programs.

## AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether the Hendry County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Established internal controls that promote and encourage: (1) compliance with applicable laws, rules, regulations, contracts, and grant agreements; (2) the economic and efficient operation of the District; (3) the reliability of records and reports; and (4) the safeguarding of District assets;

- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs; and
- Taken corrective actions for findings included in our report No. 2015-137.

The scope of this audit included an examination of the District's basic financial statements and the accompanying Schedule of Expenditures of Federal Awards as of and for the fiscal year ended June 30, 2015. We obtained an understanding of the District's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements and Federal awards. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

#### AUDIT METHODOLOGY

The methodology used to develop the findings in this report included the examination of pertinent District records in connection with the application of procedures required by auditing standards generally accepted in the United States of America; applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget Circular A-133.



Sherrill F. Norman, CPA  
Auditor General

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The President of the Senate, the Speaker of the  
House of Representatives, and the  
Legislative Auditing Committee

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hendry County District School Board, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the school internal funds, which represent 24 percent of the assets and 94 percent of the liabilities of the aggregate remaining fund information. In addition, we did not audit the financial statements of the Hendry Public Schools Foundation, Inc. (Foundation), which represent less than 1 percent of the assets, liabilities, revenues, and expenses/expenditures of the aggregate remaining fund information. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as they relate to the amounts included for the school internal funds and the Foundation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hendry County District School Board, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note II. to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is a change in accounting principle that requires an employer participating in a cost-sharing multiple-employer defined benefit pension plan to report the employer's proportionate share of the net pension liability of the defined benefit pension plan. This affects the comparability of amounts reported in the 2014-15 fiscal year with the amounts reported for the 2013-14 fiscal year. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, Budgetary Comparison Schedule – General and Major Special Revenue Funds, Schedule of Funding Progress – Other Postemployment Benefits Plan, Schedule of the District's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan, Schedule of District Contributions – Florida Retirement System Pension Plan, Schedule of the District's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan, Schedule of District Contributions – Health Insurance Subsidy Pension Plan, and Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an

appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by the United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 11, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of the Hendry County District School Board has prepared the following discussion and analysis to provide an overview of the District's financial activities for the fiscal year ended June 30, 2015. The information contained in the Management's Discussion and Analysis (MD&A) is intended to highlight significant transactions, events, and conditions and should be considered in conjunction with the District's financial statements and notes to financial statements found immediately following the MD&A.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2014-15 fiscal year are as follows:

- The Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014. The implementation of this new accounting standard resulted in a beginning net position decrease of \$21.7 million, or 36.1 percent.
- General revenues total \$60.9 million, or 93 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions total \$4.6 million, or 7 percent of all revenues.
- Expenses total \$65.3 million. Only \$4.6 million of these expenses was offset by program specific charges, with the remainder paid from general revenues.
- At the end of the current fiscal year, the fund balance of the General Fund totals \$11 million, which is \$0.4 million less than the prior fiscal year balance. The General Fund total assigned and unassigned fund balances was \$3.8 million, or approximately 7.6 percent of total General Fund revenues.
- Total long-term liabilities increased over the 2013-14 fiscal year long-term liabilities by \$16.1 million, or approximately 142.5 percent, mainly because of the implementation of GASB Statement No. 68 during the fiscal year.

### **OVERVIEW OF FINANCIAL STATEMENTS**

The basic financial statements consist of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to financial statements. This report also includes supplementary information intended to furnish additional details to support the basic financial statements.

#### **Government-wide Financial Statements**

The government-wide financial statements provide both short-term and long-term information about the District's overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the District presented on the accrual basis of accounting. The statement of net position provides information about the District's financial position, its assets, liabilities, and deferred inflows/outflows of resources, using an economic resources measurement focus. Assets plus deferred outflows of resources, less liabilities and deferred inflows of resources, equals net position, which is a measure of the District's financial health. The statement of activities presents information about the change in the District's net position, the results of

operations, during the fiscal year. An increase or decrease in net position is an indication of whether the District's financial health is improving or deteriorating.

All of the District's activities and services are reported in the government-wide financial statements as governmental activities. The District's governmental activities include instruction, student support services, instructional support services, administrative support services, facility maintenance, transportation, and food services. Property taxes and State revenues finance most of these activities. Additionally, all capital and debt financing activities are reported as governmental activities.

The government-wide statements present the District's activities in the following categories:

- Governmental activities – This represents most of the District's services, including its educational programs: basic, vocational, adult, and exceptional education. Support functions such as transportation and administration are also included. Local property taxes and the State's education finance program provide most of the resources that support these activities.
- Blended component units – The District presents two separate legal entities in this report, which are the Hendry Public Schools Foundation, Inc. (Foundation), and the Hendry County School Board Leasing Corporation (Leasing Corporation). The Foundation is a not-for-profit corporation organized and operated as a direct-support organization under Section 1001.453, Florida Statutes. The Leasing Corporation was formed to facilitate financing for the acquisition of facilities and equipment for the District. Based on generally accepted accounting principles, as discussed in the notes to financial statements, these two entities have been included as an integral part of the primary government.

### **Fund Financial Statements**

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and prudent fiscal management. Certain funds are established by law while others are created by legal agreements, such as bond covenants. Fund financial statements provide more detailed information about the District's financial activities, focusing on its most significant or "major" funds rather than fund types. This is in contrast to the entitywide perspective contained in the government-wide statements. All of the District's funds may be classified within one of the broad categories discussed below.

**Governmental Funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of

revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the District's most significant funds. The District's major funds are the General Fund, Special Revenue – Food Service Fund, Special Revenue – Other Fund, and Capital Projects – Local Capital Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its governmental funds. A budgetary comparison schedule has been provided for the General and major Special Revenue Funds to demonstrate compliance with the budget.

**Proprietary Fund:** Proprietary funds may be established to account for activities in which a fee is charged for services. Internal service funds are used to report activities that provide goods and services to support the District's other programs and functions through user charges. The District uses the internal service fund to account for self-insurance activity for dental employee benefits. Revenue is generated by insurance premiums contributed by the Board and program participants.

**Fiduciary Funds:** Fiduciary funds are used to report assets held in a trustee or fiduciary capacity for the benefit of external parties, such as student activity funds. Fiduciary funds are not reflected in the government-wide statements because the resources are not available to support the District's own programs. In its fiduciary capacity, the District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes.

The District uses a private-purpose trust fund to account for the activities of the Foundation, which is a separate not-for-profit corporation organized to receive, hold, invest, and administer property and to make expenditures to or for the benefit of public prekindergarten through postsecondary education.

The District uses agency funds to account for resources held for student activities and groups.

### **Notes to Financial Statements**

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's net pension liability and its progress in funding its obligation to provide other postemployment benefits to its employees.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position over time may serve as a useful indicator of a government's financial health. The following is a summary of the District's net position as of June 30, 2015, compared to net position as of June 30, 2014:

## Net Position, End of Year

	Governmental Activities	
	6-30-15	6-30-14
Current and Other Assets	\$ 19,062,062	\$ 18,914,679
Capital Assets	51,568,384	52,894,390
<b>Total Assets</b>	<b>70,630,446</b>	<b>71,809,069</b>
Deferred Outflows of Resources	5,349,031	-
Long-Term Liabilities	27,423,972	11,316,398
Other Liabilities	348,057	396,394
<b>Total Liabilities</b>	<b>27,772,029</b>	<b>11,712,792</b>
Deferred Inflows of Resources	9,614,309	-
Net Position:		
Net Investment in Capital Assets	47,799,478	48,854,309
Restricted	6,899,055	6,265,172
Unrestricted (Deficit)	(16,105,394)	4,976,796
<b>Total Net Position</b>	<b>\$ 38,593,139</b>	<b>\$ 60,096,277</b>

The largest portion of the District's net position is investment in capital assets (e.g., land; buildings; furniture, fixtures, and equipment), less any related debt still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources used to repay the debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The restricted portion of the District's net position represents resources that are subject to external restrictions on how they may be used.

The District's net position decreased by \$21,503,138, from \$60,096,277 at June 30, 2014, to \$38,593,139 at June 30, 2015. The change is primarily attributable to the adoption of the GASB Statement No. 68, which is a change in accounting principle that requires employers participating in cost-sharing multiple-employer defined pension plans to report the employer's proportionate share of the net pension liability of defined benefit pension plans.

The key elements of the changes in the District's net position for the fiscal years ended June 30, 2015, and June 30, 2014, are as follows:

## Operating Results for the Fiscal Year Ended

	Governmental Activities	
	6-30-15	6-30-14
Program Revenues:		
Charges for Services	\$ 635,354	\$ 838,645
Operating Grants and Contributions	3,695,251	3,540,793
Capital Grants and Contributions	291,059	277,568
General Revenues:		
Property Taxes, Levied for Operational Purposes	10,447,529	10,443,092
Property Taxes, Levied for Capital Projects	2,706,244	2,685,960
Grants and Contributions Not Restricted to Specific Programs	46,555,044	45,701,156
Unrestricted Investment Earnings	83,929	68,060
Miscellaneous	1,061,978	535,450
<b>Total Revenues</b>	<b>65,476,388</b>	<b>64,090,724</b>
Functions/Program Expenses:		
Instruction	35,260,138	35,186,526
Student Personnel Services	2,320,291	2,215,892
Instructional Media Services	776,571	770,364
Instruction and Curriculum Development Services	1,385,392	1,292,438
Instructional Staff Training Services	921,441	897,412
Instructional-Related Technology	420,840	119,782
Board	618,452	794,878
General Administration	1,088,710	965,610
School Administration	3,817,068	3,724,959
Facilities Acquisition and Construction	1,589,649	1,697,061
Fiscal Services	653,868	700,589
Food Services	3,734,391	3,686,767
Central Services	349,247	337,052
Student Transportation Services	2,815,243	2,873,858
Operation of Plant	4,215,172	4,333,469
Maintenance of Plant	1,404,262	1,483,580
Administrative Technology Services	989,723	1,054,454
Unallocated Interest on Long-Term Debt	49,129	59,392
Unallocated Depreciation	2,797,667	2,709,743
Loss on Disposal of Capital Assets	45,497	7,139
<b>Total Functions/Program Expenses</b>	<b>65,252,751</b>	<b>64,910,965</b>
<b>Change in Net Position</b>	<b>223,637</b>	<b>(820,241)</b>
Net Position, Beginning of Year	60,096,277	60,916,518
Adjustment to Beginning Net Position (1)	(21,726,775)	-
Net Position - Beginning, as Restated	38,369,502	60,916,518
<b>Net Position - Ending</b>	<b>\$ 38,593,139</b>	<b>\$ 60,096,277</b>

Note: (1) Adjustment to beginning net position is due to the implementation of GASB Statement No. 68.

The largest revenue source is the State of Florida (59.6 percent). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data, and is designed to maintain equity in funding

across all Florida school districts, taking into consideration the District's funding ability based on the local property tax base.

Grants and contributions not restricted to specific programs revenues increased by \$0.9 million, or 1.9 percent, primarily due to an increase in FEFP revenues from the State. FEFP revenues increased, in part, because student enrollment increased.

Instruction expenses represent 54 percent of total governmental expenses in the 2014-15 fiscal year. Instruction expenses remained consistent and includes instructional staff salaries and related benefits.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### **Governmental Funds**

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Specifically, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance that has not been limited to a particular purpose by an external party, the District, or a group or individual delegated authority by the Board to assign resources for particular purposes.

The total fund balances of governmental funds increased by \$0.2 million during the fiscal year to \$17.5 million at June 30, 2015. Approximately 17 percent of this amount is unassigned fund balance (\$3 million), which is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, committed, or assigned to indicate that it is: (1) not in spendable form (\$0.2 million), (2) restricted for particular purposes (\$6.9 million), (3) committed for particular purposes (\$6.6 million), or (4) assigned for particular purposes (\$0.8 million).

### **Major Governmental Funds**

The General Fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance is \$3 million, while the total fund balance is \$11 million. As a measure of the General Fund's liquidity, it may be useful to compare the total assigned and unassigned fund balances to General Fund total revenues. The total assigned and unassigned fund balance is approximately 7.6 percent of the total General Fund revenues, while total fund balance represents approximately 22 percent of total General Fund revenues.

Total fund balance decreased by \$0.4 million during the fiscal year. The key factor impacting the change in fund balance is that total expenditures increased by \$0.8 million, or 1.6 percent, due mainly to an increase in staff and other costs.

The Special Revenue – Food Service Fund revenues exceeded expenditures by \$0.4 million. This may be compared to last fiscal year's results in which the Special Revenue – Food Service Fund expenditures exceeded revenues by \$0.05 million. The funding was mainly used for food and supplies.

The Special Revenue – Other Fund has total revenues and expenditures of \$7.5 million each, respectively. The funding was mainly used for instruction. Because grant revenues attributed to the grants accounted for in this fund are not recognized until expenditures are incurred, this fund generally

does not accumulate a fund balance. Activity in the Special Revenue – Other Fund was substantially unchanged.

The Capital Projects – Local Capital Improvement (LCI) Fund has total fund balance of \$2.3 million. This fund is restricted for the acquisition, construction, and maintenance of capital assets. The fund balance decreased in the current fiscal year primarily due to prior year resources being used to finance current fiscal year expenditures. It should be noted that approximately \$1 million has been encumbered for LCI projects.

### **Proprietary Fund**

The District's proprietary fund financial statements provide the same type of information reported in the government-wide financial statements, but in more detail. Unrestricted net position of the Internal Service Fund decreased by \$0.03 million during the 2014-15 fiscal year to \$1.2 million at June 30, 2015. This decrease occurred primarily because of increases in dental claims.

## GENERAL FUND BUDGETARY HIGHLIGHTS

During the 2014-15 fiscal year, the District amended its General Fund budget several times, which resulted in an increase in total budgeted revenues of \$0.9 million, or 1.8 percent. At the same time, final appropriations are greater than the original budgeted amounts by \$1.1 million. Budget revisions occurred primarily from changes in estimated State funding levels and corresponding adjustments to planned expenditures to ensure maintenance of an adequate fund balance.

Actual revenues are in line with the final budgeted amounts while actual expenditures are \$2.5 million, or 4.7 percent, less than final budgeted amounts. The variance in expenditures was primarily due to continued cost containment measures implemented by the District. The actual ending fund balance exceeded the estimated fund balance contained in the final amended budget by \$2.6 million.

## CAPITAL ASSETS AND LONG-TERM DEBT

### **Capital Assets**

The District's investment in capital assets for its governmental activities as of June 30, 2015, is \$51.6 million (net of accumulated depreciation). This investment in capital assets includes land; improvements other than buildings; buildings and fixed equipment; furniture, fixtures, and equipment; motor vehicles; and computer software. The total decrease in capital assets for the current fiscal year was approximately 2.5 percent.

Additional information on the District's capital assets can be found in Notes I.F.4. and III.C. to the financial statements.

### **Long-Term Debt**

At June 30, 2015, the District has total long-term debt outstanding of \$3.8 million, composed of \$0.7 million of bonds payable and \$3.1 million of certificates of participation payable. During the current fiscal year, retirement of debt was \$0.7 million.

State school bonds outstanding at June 30, 2015, totaling \$0.4 million, are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Revenue bonds of \$0.3 million are secured by pari-mutuel tax proceeds. The District's certificates of participation are not secured by specified revenue sources.

Additional information on the District's long-term debt can be found in Notes I.F.6. and III.H.1. through III.H.4. to the financial statements.

**OTHER MATTERS OF SIGNIFICANCE**

The latest enrollment projections for the District indicate an increase of approximately 129 students during the 2015-16 fiscal year, which will increase State revenue to some extent.

Employer contributions to the Florida Retirement System decreased for regular employees from 7.37 percent to 7.26 percent of payroll for the 2015-16 fiscal year.

Housing prices are expected to increase the taxable assessed property value for the 2015-16 fiscal year.

**REQUESTS FOR INFORMATION**

This report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning information provided in the MD&A or other required supplementary information, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Superintendent, Hendry County District School Board, 25 E. Hickpoochee Avenue, LaBelle, Florida, 33935.

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# **BASIC FINANCIAL STATEMENTS**

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## Hendry County District School Board Statement of Net Position June 30, 2015

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 17,092,080
Investments	11,053
Accounts Receivable	10,230
Due from Other Agencies	123,863
Inventories	200,789
Restricted Cash and Cash Equivalents	22,009
Restricted Investments	1,602,038
Capital Assets:	
Nondepreciable Capital Assets	1,278,483
Depreciable Capital Assets, Net	50,289,901
<b>TOTAL ASSETS</b>	<u>70,630,446</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	<u>5,349,031</u>
<b>LIABILITIES</b>	
Accounts Payable	276,002
Estimated Liability for Self-Insurance Program	72,055
Long-Term Liabilities:	
Portion Due Within One Year	1,343,991
Portion Due After One Year	26,079,981
<b>TOTAL LIABILITIES</b>	<u>27,772,029</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions	<u>9,614,309</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	47,799,478
Restricted for:	
State Required Carryover Programs	344,990
Debt Service	1,964,882
Capital Projects	2,491,903
Federal Programs	8,096
Food Service	2,089,184
Unrestricted	(16,105,394)
<b>TOTAL NET POSITION</b>	<u>\$ 38,593,139</u>

The accompanying notes to financial statements are an integral part of this statement.

**Hendry County District School Board  
Statement of Activities  
For the Fiscal Year Ended June 30, 2015**

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
<b>Governmental Activities:</b>			
Instruction	\$ 35,260,138	\$ 49,404	\$ -
Student Personnel Services	2,320,291	-	-
Instructional Media Services	776,571	-	-
Instruction and Curriculum Development Services	1,385,392	-	-
Instructional Staff Training Services	921,441	-	-
Instructional-Related Technology	420,840	-	-
Board	618,452	-	-
General Administration	1,088,710	-	-
School Administration	3,817,068	-	-
Facilities Acquisition and Construction	1,589,649	-	-
Fiscal Services	653,868	-	-
Food Services	3,734,391	480,089	3,695,251
Central Services	349,247	-	-
Student Transportation Services	2,815,243	105,861	-
Operation of Plant	4,215,172	-	-
Maintenance of Plant	1,404,262	-	-
Administrative Technology Services	989,723	-	-
Unallocated Interest on Long-Term Debt	49,129	-	-
Unallocated Depreciation	2,797,667	-	-
Loss on Disposal of Capital Assets	45,497	-	-
<b>Total Governmental Activities</b>	<b>\$ 65,252,751</b>	<b>\$ 635,354</b>	<b>\$ 3,695,251</b>

**General Revenues:**

Taxes:

Property Taxes, Levied for Operational Purposes

Property Taxes, Levied for Capital Projects

Grants and Contributions Not Restricted to Specific Programs

Unrestricted Investment Earnings

Miscellaneous

**Total General Revenues**

**Change in Net Position**

Net Position - Beginning

Adjustment to Beginning Net Position

Net Position - Beginning, as Restated

**Net Position - Ending**

The accompanying notes to financial statements are an integral part of this statement.

		<b>Net (Expense) Revenue and Changes in Net Position</b>
<b>Capital Grants and Contributions</b>		<b>Governmental Activities</b>
\$	-	\$ (35,210,734)
	-	(2,320,291)
	-	(776,571)
	-	(1,385,392)
	-	(921,441)
	-	(420,840)
	-	(618,452)
	-	(1,088,710)
	-	(3,817,068)
	57,354	(1,532,295)
	-	(653,868)
	-	440,949
	-	(349,247)
	-	(2,709,382)
	-	(4,215,172)
	-	(1,404,262)
	-	(989,723)
	233,705	184,576
	-	(2,797,667)
	-	(45,497)
<b>\$</b>	<b>291,059</b>	<b>(60,631,087)</b>

10,447,529
2,706,244
46,555,044
83,929
1,061,978
<b>60,854,724</b>
<b>223,637</b>
60,096,277
(21,726,775)
<b>38,369,502</b>
<b>\$ 38,593,139</b>

**Hendry County District School Board  
Balance Sheet – Governmental Funds  
June 30, 2015**

	<u>General Fund</u>	<u>Special Revenue - Food Service Fund</u>	<u>Special Revenue - Other Fund</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 10,937,108	\$ 1,982,940	\$ 20,077
Investments	-	-	-
Accounts Receivable	10,230	-	-
Due from Other Funds	10,575	-	-
Due from Other Agencies	22,512	71,678	22,446
Inventories	164,686	36,103	-
Restricted Cash and Cash Equivalents	-	-	-
Restricted Investments	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 11,145,111</u>	<u>\$ 2,090,721</u>	<u>\$ 42,523</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 185,093	\$ 1,537	\$ 23,852
Due to Other Funds	-	-	10,575
<b>Total Liabilities</b>	<u>185,093</u>	<u>1,537</u>	<u>34,427</u>
Deferred Inflows of Resources:			
Unavailable Revenue - Capital Outlay and Debt Service	-	-	-
Fund Balances:			
Nonspendable:			
Inventories	164,686	36,103	-
Restricted for:			
State Required Carryover Programs	344,990	-	-
Debt Service	-	-	-
Capital Projects	-	-	-
Federal Programs	-	-	8,096
Food Service	-	2,053,081	-
Total Restricted Fund Balance	<u>344,990</u>	<u>2,053,081</u>	<u>8,096</u>
Committed for:			
Economic Stabilization	6,621,874	-	-
Assigned for:			
Purchases on Order	324,560	-	-
Emergency Fund	500,558	-	-
Total Assigned Fund Balance	<u>825,118</u>	<u>-</u>	<u>-</u>
Unassigned Fund Balance	<u>3,003,350</u>	<u>-</u>	<u>-</u>
<b>Total Fund Balances</b>	<u>10,960,018</u>	<u>2,089,184</u>	<u>8,096</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 11,145,111</u>	<u>\$ 2,090,721</u>	<u>\$ 42,523</u>

The accompanying notes to financial statements are an integral part of this statement.

<b>Capital Projects - Local Capital Improvement Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 2,363,231	\$ 523,974	\$ 15,827,330
-	11,053	11,053
-	-	10,230
-	-	10,575
-	7,227	123,863
-	-	200,789
-	22,009	22,009
-	1,602,038	1,602,038
<u>\$ 2,363,231</u>	<u>\$ 2,166,301</u>	<u>\$ 17,807,887</u>
\$ 65,520	\$ -	\$ 276,002
-	-	10,575
<u>65,520</u>	<u>-</u>	<u>286,577</u>
-	7,227	7,227
-	-	200,789
-	-	344,990
-	1,964,882	1,964,882
2,297,711	194,192	2,491,903
-	-	8,096
-	-	2,053,081
<u>2,297,711</u>	<u>2,159,074</u>	<u>6,862,952</u>
-	-	6,621,874
-	-	324,560
-	-	500,558
-	-	825,118
-	-	3,003,350
<u>2,297,711</u>	<u>2,159,074</u>	<u>17,514,083</u>
<u>\$ 2,363,231</u>	<u>\$ 2,166,301</u>	<u>\$ 17,807,887</u>

**Hendry County District School Board  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
June 30, 2015**

**Total Fund Balances - Governmental Funds** \$ 17,514,083

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 51,568,384

A portion of capital outlay and debt service revenue is not available to pay for current period expenditures, and therefore, is reported as unavailable revenue on the governmental fund statements. 7,227

An internal service funds is used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. 1,192,695

The deferred outflows of resources and deferred inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows Related to Pensions	\$ 5,349,031	
Deferred Inflows Related to Pensions	<u>(9,614,309)</u>	(4,265,278)

Long-term liabilities are not due and payable in the fiscal year and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Certificates of Participation Payable	\$ (3,068,200)	
Bonds Payable	(700,706)	
Other Postemployment Benefits Payable	(2,345,561)	
Compensated Absences Payable	(5,004,913)	
Net Pension Liability	<u>(16,304,592)</u>	<u>(27,423,972)</u>

**Net Position - Governmental Activities** **\$ 38,593,139**

The accompanying notes to financial statements are an integral part of this statement.

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**Hendry County District School Board  
Statement of Revenues, Expenditures, and Changes in  
Fund Balances – Governmental Funds  
For the Fiscal Year Ended June 30, 2015**

	General Fund	Special Revenue - Food Service Fund	Special Revenue - Other Fund
<b>Revenues</b>			
Intergovernmental:			
Federal Through State and Local	\$ 266,639	\$ 3,638,375	\$ 7,526,244
State	38,388,248	56,876	-
Local:			
Property Taxes	10,447,529	-	-
Charges for Services - Food Service	-	480,089	-
Miscellaneous	953,419	5,113	-
Total Local Revenues	<u>11,400,948</u>	<u>485,202</u>	<u>-</u>
<b>Total Revenues</b>	<u>50,055,835</u>	<u>4,180,453</u>	<u>7,526,244</u>
<b>Expenditures</b>			
Current - Education:			
Instruction	31,002,209	-	4,936,181
Student Personnel Services	1,829,979	-	528,577
Instructional Media Services	748,493	-	43,596
Instruction and Curriculum Development Services	520,321	-	876,171
Instructional Staff Training Services	75,455	-	819,380
Instructional - Related Technology	389,527	-	-
Board	622,966	-	-
General Administration	919,958	-	180,929
School Administration	3,907,187	-	-
Facilities Acquisition and Construction	9,260	-	263
Fiscal Services	669,029	-	-
Food Services	-	3,734,391	-
Central Services	348,776	-	6,787
Student Transportation Services	2,817,746	-	42,590
Operation of Plant	4,254,445	-	-
Maintenance of Plant	1,432,978	-	213
Administrative Technology Services	1,002,035	-	-
Fixed Capital Outlay:			
Facilities Acquisition and Construction	-	-	-
Other Capital Outlay	122,024	56,327	84,801
Debt Service:			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
<b>Total Expenditures</b>	<u>50,672,388</u>	<u>3,790,718</u>	<u>7,519,488</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(616,553)</u>	<u>389,735</u>	<u>6,756</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Refunding Bonds	-	-	-
Premium on Refunding Bonds	-	-	-
Payments to Refunding Escrow Agent	-	-	-
Loss Recoveries	212,947	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>212,947</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(403,606)	389,735	6,756
Fund Balances, Beginning	11,363,624	1,699,449	1,340
<b>Fund Balances, Ending</b>	<u>\$ 10,960,018</u>	<u>\$ 2,089,184</u>	<u>\$ 8,096</u>

The accompanying notes to financial statements are an integral part of this statement.

<b>Capital Projects - Local Capital Improvement Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 92,394	\$ 11,523,652
-	565,351	39,010,475
2,706,244	-	13,153,773
-	-	480,089
6,221	52,287	1,017,040
<u>2,712,465</u>	<u>52,287</u>	<u>14,650,902</u>
<u>2,712,465</u>	<u>710,032</u>	<u>65,185,029</u>
-	-	35,938,390
-	-	2,358,556
-	-	792,089
-	-	1,396,492
-	28,068	922,903
-	31,313	420,840
-	-	622,966
-	805	1,101,692
-	-	3,907,187
1,460,731	121,164	1,591,418
-	-	669,029
-	-	3,734,391
-	-	355,563
-	-	2,860,336
-	-	4,254,445
-	-	1,433,191
-	-	1,002,035
1,125,532	49,000	1,174,532
-	32,208	295,360
-	300,000	300,000
-	43,202	43,202
<u>2,586,263</u>	<u>605,760</u>	<u>65,174,617</u>
<u>126,202</u>	<u>104,272</u>	<u>10,412</u>
-	377,000	377,000
-	29,633	29,633
-	(414,320)	(414,320)
-	-	212,947
-	286,225	286,225
<u>(161,225)</u>	<u>(125,000)</u>	<u>(286,225)</u>
<u>(161,225)</u>	<u>153,538</u>	<u>205,260</u>
(35,023)	257,810	215,672
<u>2,332,734</u>	<u>1,901,264</u>	<u>17,298,411</u>
<u>\$ 2,297,711</u>	<u>\$ 2,159,074</u>	<u>\$ 17,514,083</u>

**Hendry County District School Board  
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,  
 and Changes in Fund Balances to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2015**

**Net Change in Fund Balances - Governmental Funds** \$ 215,672

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in excess of capital outlays in the current fiscal year. (1,280,509)

The loss on the disposal of capital assets during the current fiscal year is reported in the statement of activities. In the governmental funds, the cost of these assets was recognized as an expenditure in the fiscal year purchased. Thus, the change in net position differs from the change in fund balance by the undepreciated cost of the disposed assets. (45,497)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increase long-term liabilities in the statement of net position. Repayment of bond proceeds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceed proceeds in the current periods.

Bond Proceeds	\$ (406,633)	
Bond Repayments	<u>733,846</u>	327,213

The governmental funds reported deferred inflows of resources related to unavailable capital outlay and debt service revenue. This amount is accrued and reported as revenue on the statement of activities. 7,227

In the statement of activities, the cost of compensated absences is measured by the amounts earned during the year, while in the governmental funds, expenditures are recognized based on the amounts actually paid for compensated absences. This is the net amount of compensated absences used in excess of the amount earned in the current fiscal year. 130,229

Other postemployment benefits costs are recorded in the statement of activities under the full accrual basis of accounting, but are not recorded in the governmental funds until paid. This is the net increase in the other postemployment benefits liability for the current fiscal year. (260,424)

Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.

FRS Pension Contribution	\$ 2,235,486	
HIS Pension Contribution	436,734	
FRS Pension Expense	(730,678)	
HIS Pension Expense	<u>(784,637)</u>	1,156,905

An internal service fund is used by management to charge the cost of certain activities, such as insurance, to individual funds. The net expense of internal service fund is reported with governmental activities. (27,179)

**Change in Net Position - Governmental Activities** \$ 223,637

The accompanying notes to financial statements are an integral part of this statement.

**Hendry County District School Board  
Statement of Net Position – Proprietary Fund  
June 30, 2015**

	<b>Governmental Activities - Internal Service Fund</b>
	<u>                    </u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$      1,264,750
	<u>                    </u>
<b>LIABILITIES</b>	
Current Liabilities:	
Estimated Liability for Self-Insurance Program	72,055
	<u>                    </u>
<b>NET POSITION</b>	
Unrestricted	\$      1,192,695
	<u>                    </u>

The accompanying notes to financial statements are an integral part of this statement.

**Hendry County District School Board  
Statement of Revenues, Expenses, and Changes in Fund  
Net Position – Proprietary Fund  
For the Fiscal Year Ended June 30, 2015**

	<b>Governmental  Activities -  Internal Service  Fund</b>
	<b>Fund</b>
<b>OPERATING REVENUES</b>	
Premium Revenue from Board and Participant's Funds	\$ 498,073
<b>OPERATING EXPENSES</b>	
Insurance Claims	462,081
Other	63,171
<b>Total Operating Expenses</b>	<b>525,252</b>
<b>Change in Net Position</b>	<b>(27,179)</b>
Total Net Position - Beginning	1,219,874
<b>Total Net Position - Ending</b>	<b>\$ 1,192,695</b>

The accompanying notes to financial statements are an integral part of this statement.

**Hendry County District School Board  
Statement of Cash Flows – Proprietary Fund  
For the Fiscal Year Ended June 30, 2015**

	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Board and Participant's Funds	\$ 498,073
Cash Payments for Insurance Claims	(462,314)
Cash Payments for Purchased Services and Other	(63,171)
	(27,412)
<b>Net Cash Used by Operating Activities</b>	<b>(27,412)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(27,412)</b>
Cash and Cash Equivalents, Beginning	1,292,162
	1,264,750
<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 1,264,750</b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities:</b>	
Operating Loss	\$ (27,179)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Decrease in Estimated Liability for Self-Insurance Program	(233)
	(233)
<b>Net Cash Used by Operating Activities</b>	<b>\$ (27,412)</b>

The accompanying notes to financial statements are an integral part of this statement.

**Hendry County District School Board  
Statement of Fiduciary Net Position  
For the Fiscal Year Ended June 30, 2015**

	<b>Private-Purpose Trust Fund</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 8,281	\$ 1,047,022
Investments	-	68,088
Total Assets	<b>\$ 8,281</b>	<b>\$ 1,115,110</b>
<b>LIABILITIES</b>		
Internal Accounts Payable	\$ -	<b>\$ 1,115,110</b>
<b>NET POSITION</b>		
Held in Trust for Scholarships and Other Purposes	<b>\$ 8,281</b>	

The accompanying notes to financial statements are an integral part of this statement.

**Hendry County District School Board  
Statement of Changes in Fiduciary Net Position – Fiduciary Funds  
For the Fiscal Year Ended June 30, 2015**

	<b>Private-Purpose Trust Fund</b>
<b>ADDITIONS</b>	
<b>Contributions:</b>	
Gifts, Grants, Endowments, and Bequests	\$ 12,642
<b>Investment Income:</b>	
Interest, Dividends, and Other	26
<b>Total Additions</b>	<b>12,668</b>
<b>DEDUCTIONS</b>	
Program Services - Mini-grants for School Programs	6,733
Program Services - Other	7,884
Administrative Expenses	1,397
<b>Total Deductions</b>	<b>16,014</b>
<b>Change in Net Position</b>	<b>(3,346)</b>
Net Position - Beginning	11,627
<b>Net Position - Ending</b>	<b>\$ 8,281</b>

The accompanying notes to financial statements are an integral part of this statement.

# **NOTES TO FINANCIAL STATEMENTS**

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## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Description of Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Hendry County School District's (District) governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function. Depreciation expense is not readily associated with a particular function and is reported as unallocated.

### **B. Reporting Entity**

The Hendry County District School Board (Board) has direct responsibility for operation, control, and supervision of District schools and is considered a primary government for financial reporting. The District is considered part of the Florida system of public education, operates under the general direction of the Florida Department of Education (FDOE), and is governed by State law and State Board of Education (SBE) rules. The governing body of the District is the Board, which is typically composed of five elected members. Due to Board member position vacancies during the 2014-15 fiscal year, the Governor appointed two of the five Board members. The elected Superintendent of Schools is the executive officer of the Board. Geographic boundaries of the District correspond with those of Hendry County.

Criteria for determining if other entities are potential component units that should be reported within the District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any legally separate entities for which the Board is financially accountable and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the District's basic financial statements to be misleading. Based on these criteria, the following blended component units are included within the District's reporting entity:

- The Hendry County School Board Leasing Corp. (Leasing Corporation) was formed to facilitate financing for the acquisition of facilities and equipment as further discussed in Note III.H. Due to the substantive economic relationship between the District and the Leasing Corporation, the financial activities of the Leasing Corporation are included in the accompanying basic financial statements. Separate financial statements for the Leasing Corporation are not published.
- The Hendry Public Schools Foundation, Inc. (Foundation), is a separate not-for-profit corporation organized and operated as a direct-support organization to receive, hold, invest, and administer

property and to make expenditures to and for the benefit of public prekindergarten through postsecondary education in the State in the form of money and other forms of property and services to the Board. Since the Foundation's governing body is substantively the same as Board, the financial activities of the Foundation are included in the accompanying basic financial statements. An annual audit of the Foundation's financial statements is conducted by an independent certified public accountant and is filed in the District's administrative office at 25 E. Hickpoochee Avenue, LaBelle, Florida, 33935.

### **C. Basis of Presentation: Government-wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and an internal service fund. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The effects of interfund activity have been eliminated from the government-wide financial statements except for interfund services provided and used.

### **D. Basis of Presentation: Fund Financial Statements**

The fund financial statements provide information about the District's funds, including the fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.
- Special Revenue – Food Service Fund – to account for food service revenues and expenditures.
- Special Revenue – Other Fund – to account for certain Federal grant program resources.

Capital Projects – Local Capital Improvement Fund – to account for the financial resources generated by the local capital improvement tax levy to be used for educational capital outlay needs, including new construction, renovation and remodeling projects and debt service payments on certain bonds.

Additionally, the District reports the following proprietary and fiduciary fund types:

- Internal Service Fund – to account for the District's employee dental benefit program.
- Private-Purpose Trust Fund – to account for resources of the Foundation.
- Agency Funds – to account for resources of the school internal funds, which are used to administer moneys collected at several schools in connection with school, student athletic, class, and club activities.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at fiscal year-end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation

of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in and out. While reported in fund financial statements, transfers between funds are eliminated in the preparation of the government-wide financial statements.

## **E. Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenue is recognized at the time the expenditure is made. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, claims and judgments, pension benefits, other postemployment benefits, and compensated absences, are only recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt are reported as other financing sources. Allocations of cost, such as depreciation, are not recognized in governmental funds.

The proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds include a trust fund and agency funds. The trust fund uses the economic resources measurement focus and accrual basis of accounting. Agency funds are unlike all other types of funds and report only assets and liabilities. The agency funds do not have a measurement focus, but do use an accrual basis of accounting to recognize assets and liabilities.

## **F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

### **1. Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term, highly liquid investments with original maturities of 3 months or less. Investments classified as cash equivalents include amounts placed with the State Board of Administration (SBA) in Florida PRIME, formerly known as the Local Government Surplus Funds Trust Fund Investment Pool.

Cash deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

### **2. Investments**

Investments consist of amounts placed in the SBA debt service accounts for investment of debt service moneys, amounts placed with the SBA for participation in the Florida PRIME investment pool created by Section 218.405, Florida Statutes, and those made locally. The investment pool operates under investment guidelines established by Section 215.47, Florida Statutes.

The District's investments in Florida PRIME, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments. These investments are reported at fair value, which is amortized cost.

Investments made locally consist of a United States Treasury Bill held by a trustee under a paying agent agreement in connection with the Qualified Zone Academy Bonds (QZABs) financing arrangement (see Note III.H.1.). Types and amounts of investments held at fiscal year-end are described in a subsequent note.

### **3. Inventories**

Inventories consist of expendable supplies held for consumption in the course of District operations. Central warehouse, maintenance, and transportation inventories are stated at cost on a moving-average basis. Purchased food and cafeteria supplies are stated at actual cost. United States Department of Agriculture donated foods are stated at their fair value as determined at the time of donation to the District's food service program by the Florida Department of Agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased.

### **4. Capital Assets**

Expenditures for capital assets acquired or constructed for general District purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the District

as those costing \$1,000 or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Improvements Other Than Buildings	10 and 20 years
Buildings and Fixed Equipment, Excluding Relocatables	20 and 50 years
Furniture, Fixtures, and Equipment	5 and 10 years
Motor Vehicles	4 and 10 years
Computer Software	3 years

Current year information relative to changes in capital assets is described in a subsequent note.

## **5. Pensions**

In the government-wide statement of net position, liabilities are recognized for the District's proportionate share of each pension plan's net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and the HIS fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The District's retirement plans and related amounts are described in a subsequent note.

## **6. Long-Term Liabilities**

Long-term obligations that will be financed from resources to be received in the future by governmental funds are reported as liabilities in the government-wide statement of net position. Debt premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. In the governmental fund financial statements, bonds and other long-term obligations are not recognized as liabilities until due.

Changes in long-term liabilities for the current year are reported in a subsequent note.

## **7. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The District only has one item that qualifies for reporting in this category. The item, deferred outflows of resources related to pensions, is discussed in a subsequent note.

In addition to liabilities, the statement of net position and the governmental funds balance sheet report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. The first is the deferred amount on pension reported only in the government-wide statement of net position. A deferred amount on pension results from the difference in the expected and actual amounts of experience, earnings, and contributions. This amount is deferred and amortized over the service life of all employees that are provided with pensions through the pension plan except earnings which are amortized over 5 years. The second item, which arises only under a modified accrual basis of accounting, is unavailable revenue from the State of Florida for capital outlay and debt service. This amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## **8. Net Position Flow Assumption**

The District occasionally funds outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. Consequently, it is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## **9. Fund Balance Flow Assumptions**

The District may fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

## **10. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the

limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has by resolution authorized the Finance Director to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

On July 9, 2013, the Board adopted Board Policy No. 548, which established a stabilization arrangement. The stabilization arrangement reserves 7 percent of General Fund annual revenues to be used for economic stabilization. The policy further subdivides the 7 percent amount into a 6 percent strategic reserve and a 1 percent contingency reserve. The policy grants the Superintendent authority to utilize the 1 percent contingency reserve and requires the Superintendent to advise the Board in the next subsequent meeting in the event of such utilization. At June 30, 2015, committed General Fund balance was \$6,621,874 for economic stabilization and assigned fund balance was \$500,558 for an emergency fund.

## **G. Revenues and Expenditures/Expenses**

### **1. Program Revenues**

Amounts reported as program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than program revenues. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

### **2. State Revenue Sources**

Significant revenues from State sources for current operations include the Florida Education Finance Program administered by the FDOE under the provisions of Section 1011.62, Florida Statutes. In accordance with this law, the District determines and reports the number of full-time equivalent (FTE) students and related data to the FDOE. The FDOE performs certain edit checks on the reported number of FTE and related data and calculates the allocation of funds to the District. The District is permitted to amend its original reporting for a period of 5 months following the date of the original reporting. Such amendments may impact funding allocations for subsequent fiscal years. The FDOE may also adjust subsequent fiscal period allocations based upon an audit of the District's compliance in determining and reporting FTE and related data.

Normally, such adjustments are treated as reductions or additions of revenue in the fiscal year when the adjustments are made.

The State provides financial assistance to administer certain educational programs. SBE rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided, and require that the money not expended as of the close of the fiscal year be carried forward into the following fiscal year to be expended for the same educational programs. The FDOE generally requires that these educational program revenues be accounted for in the General Fund. A portion of the fund balance of the General Fund is restricted in the governmental fund financial statements for the balance of categorical and earmarked educational program resources.

The State allocates gross receipts taxes, generally known as Public Education Capital Outlay money, to the District on an annual basis. The District is authorized to expend these funds only upon applying for and receiving an encumbrance authorization from the FDOE.

A schedule of revenue from State sources for the current year is presented in a subsequent note.

### **3. District Property Taxes**

The Board is authorized by State law to levy property taxes for district school operations, capital improvements, and debt service.

Property taxes consist of ad valorem taxes on real and personal property within the District. Property values are determined by the Hendry County Property Appraiser, and property taxes are collected by the Hendry County Tax Collector.

The Board adopted the 2014 tax levy on September 9, 2014. Tax bills are mailed in October and taxes are payable between November 1 of the year assessed and March 31 of the following year at discounts of up to 4 percent for early payment.

Taxes become a lien on the property on January 1, and are delinquent on April 1, of the year following the year of assessment. State law provides for enforcement of collection of personal property taxes by seizure of the property to satisfy unpaid taxes, and for enforcement of collection of real property taxes by the sale of interest-bearing tax certificates to satisfy unpaid taxes. The procedures result in the collection of essentially all taxes prior to June 30 of the year following the year of assessment.

Property tax revenues are recognized in the government-wide financial statements when the Board adopts the tax levy. Property tax revenues are recognized in the governmental fund financial statements when taxes are received by the District, except that revenue is accrued for taxes collected by the Hendry County Tax Collector at fiscal year-end but not yet remitted to the District.

Millages and taxes levied for the current year are presented in a subsequent note.

#### **4. Federal Revenue Sources**

The District receives Federal awards for the enhancement of various educational programs. Federal awards are generally received based on applications submitted to, and approved by, various granting agencies. For Federal awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

#### **5. Compensated Absences**

In the government-wide financial statements, compensated absences (i.e., paid absences for employee vacation leave and sick leave) are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability for these amounts is reported in the governmental fund financial statements only if it has matured, such as for occurrences of employee resignations and retirements. The liability for compensated absences includes salary-related benefits, where applicable.

#### **6. Proprietary Fund Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service fund are Board contributions for dental insurance premiums. Operating expenses include insurance claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **II. ACCOUNTING CHANGE**

**Governmental Accounting Standards Board Statement No. 68.** The District participates in the FRS defined benefit pension plan and the HIS defined benefit pension plan administered by Florida Division of Retirement. As a participating employer, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires employers participating in cost-sharing multiple-employer defined benefit pension plans to report the employers' proportionate share of the net pension liabilities and related pension amounts of the defined benefit pension plans. The beginning net position of the District was decreased by \$21,726,775 due to the adoption of this Statement.

### **III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

#### **A. Cash Deposits with Financial Institutions**

**Custodial Credit Risk-Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. The District does not have a policy for custodial credit risk. All bank balances of the District are fully insured or collateralized as required by Chapter 280, Florida Statutes.

## B. Investments

As of June 30, 2015, the District had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
SBA:		
Florida PRIME (1)	34 Day Average	\$ 10,005,474
Debt Service Accounts	6 Months	11,053
United States Instrumentality Obligations:		
FHLMC Discount Note (2)	12-15-2015	<u>1,602,038</u>
<b>Total Investments</b>		<u>\$ 11,618,565</u>

Notes: (1) This investment is reported as a cash equivalent for financial statement reporting purposes and includes \$13,142 held by a trustee as described in Note (2).  
(2) This investment is held by a trustee under a paying agent agreement in connection with the QZAB financing arrangement (see Note III.H.1.).

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Section 218.415(17), Florida Statutes, limits investment maturities to provide sufficient liquidity to pay obligations as they come due. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Florida PRIME uses a weighted average days to maturity (WAM). A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes.

### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Section 218.415(17), Florida Statutes, limits investments to the SBA's Florida PRIME, or any other intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. The District does not have a formal investment policy that limits its investment choices.

The District's investments in the SBA debt service accounts are to provide for debt service payments on bond debt issued by the SBE for the benefit of the District. The District relies on policies developed by the SBA for managing interest rate risk and credit risk for this account.

The District's investment in Florida PRIME is rated AAAm by Standard & Poor's.

The District's investment in United States government instrumentality obligations is authorized under a forward delivery agreement with the QZAB paying agent. The investment must have a maturity date on or before December 15, 2015. The District's investment in the FHLMC Discount Note was rated A-1+ by Standard & Poor's Rating Services and P-1 by Moody's Investors Service.

### **Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Section 218.415(18), Florida Statutes, requires the District to earmark all investments and (1) if registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a location that protects the governing body's interest in the security; (2) if in book-entry form, the investment must be held for the credit of the governing body by a depository chartered by the Federal Government, the State, or any other state or territory of the United States which has a branch or principal place of business in this State, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in this State, and must be kept by the depository in an account separate and apart from the assets of the financial institution; or (3) if physically issued to the holder but not registered with the issuer or its agents, the investment must be immediately placed for safekeeping in a secured vault. The District does not have a formal investment policy that addresses custodial credit risk.

United States government instrumentality obligations are held by the trustee in the name of the District.

### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District does not have a formal investment policy that limits the amount the District may invest in any one issuer.

More than 5 percent of the District's investments are in a FHLMC Discount Note, a government sponsored enterprise of the United States Federal government. This investment is 14 percent of the District's total investments and 99 percent of the investments in the Debt Service – Other Fund. This investment is made pursuant to a forward delivery agreement related to the District's QZAB (See Note III.H.1).

## C. Changes in Capital Assets

Changes in capital assets are presented in the table below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 1,278,483	\$ -	\$ -	\$ 1,278,483
Capital Assets Being Depreciated:				
Improvements Other Than Buildings	3,860,088	10,100	-	3,870,188
Buildings and Fixed Equipment	83,807,751	750,776	52,347	84,506,180
Furniture, Fixtures, and Equipment	8,711,564	472,973	692,659	8,491,878
Motor Vehicles	6,059,922	283,309	135,113	6,208,118
Computer Software	618,242	-	-	618,242
Total Capital Assets Being Depreciated	<u>103,057,567</u>	<u>1,517,158</u>	<u>880,119</u>	<u>103,694,606</u>
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	3,461,618	95,844	-	3,557,462
Buildings and Fixed Equipment	36,779,932	1,757,579	48,448	38,489,063
Furniture, Fixtures, and Equipment	5,960,685	561,445	651,061	5,871,069
Motor Vehicles	4,633,561	372,805	135,113	4,871,253
Computer Software	605,864	9,994	-	615,858
Total Accumulated Depreciation	<u>51,441,660</u>	<u>2,797,667</u>	<u>834,622</u>	<u>53,404,705</u>
Total Capital Assets Being Depreciated, Net	<u>51,615,907</u>	<u>(1,280,509)</u>	<u>45,497</u>	<u>50,289,901</u>
Governmental Activities Capital Assets, Net	<u>\$ 52,894,390</u>	<u>\$ (1,280,509)</u>	<u>\$ 45,497</u>	<u>\$ 51,568,384</u>

The District's capital assets serve multiple functions; however, depreciation expense is not allocated to the various functions on the Statement of Activities, but is shown as unallocated depreciation expense.

## D. Retirement Plans

### 1. Florida Retirement System (FRS) – Defined Benefit Pension Plans

#### General Information about the FRS

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree HIS Program, a cost-sharing multiple-employer defined benefit pension plan, to assist retired members of any State-administered retirement system in paying the costs of health insurance.

Essentially all regular employees of the District are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site ([www.dms.myflorida.com](http://www.dms.myflorida.com)).

The District's pension expense totaled \$1,515,315 for the fiscal year ended June 30, 2015.

### **FRS Pension Plan**

*Plan Description.* The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Elected County Officers Class* – Members who hold specified elective offices in local government.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>Percent Value</u>
<b>Regular Class members initially enrolled before July 1, 2011</b>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<b>Regular Class members initially enrolled on or after July 1, 2011</b>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<b>Elected County Officers</b>	3.00
<b>Senior Management Service Class</b>	2.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2014-15 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.37
FRS, Elected County Officers	3.00	43.24
FRS, Senior Management Service	3.00	21.14
DROP - Applicable to		
Members from All of the Above Classes	0.00	12.28
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.26 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.04 percent for administrative costs of the Investment Plan.

(2) Contribution rates are dependent upon retirement class in which reemployed.

The District's contributions to the Plan totaled \$2,235,486 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2015, the District reported a liability of \$5,557,247 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.091080451 percent, which was an increase of 0.007520604 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized the Plan pension expense of \$730,678. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 343,899
Change of assumptions	962,423	-
Net difference between projected and actual earnings on FRS pension plan investments	-	9,270,410
Changes in proportion and differences between District FRS contributions and proportionate share of contributions	1,089,134	-
District FRS contributions subsequent to the measurement date	2,235,486	-
<b>Total</b>	<b>\$ 4,287,043</b>	<b>\$ 9,614,309</b>

The deferred outflows of resources related to pensions, totaling \$2,235,486, resulting from District contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as

deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ (1,995,403)
2017	(1,995,403)
2018	(1,995,403)
2019	(1,995,403)
2020	322,200
Thereafter	<u>96,660</u>
<b>Total</b>	<b><u>\$ (7,562,752)</u></b>

Actuarial Assumptions. The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.65 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation (1)</b>	<b>Annual Arithmetic Return</b>	<b>Compound Annual (Geometric) Return</b>	<b>Standard Deviation</b>
Cash	1.00%	3.11%	3.10%	1.65%
Intermediate-Term Bonds	18.00%	4.18%	4.05%	5.15%
High Yield Bonds	3.00%	6.79%	6.25%	10.95%
Broad US Equities	26.50%	8.51%	6.95%	18.90%
Developed Foreign Equities	21.20%	8.66%	6.85%	20.40%
Emerging Market Equities	5.30%	11.58%	7.60%	31.15%
Private Equity	6.00%	11.80%	8.11%	30.00%
Hedge Funds / Absolute Return	7.00%	5.81%	5.35%	10.00%
Real Estate (Property)	12.00%	7.11%	6.35%	13.00%
<b>Total</b>	100.00%			
Assumed inflation - Mean		2.60%		2.00%

Note: (1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.65 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent) than the current rate:

	<b>1% Decrease (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>1% Increase (8.65%)</b>
District's proportionate share of the net pension liability	\$ 23,769,083	\$ 5,557,247	\$ (9,591,526)

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan. At June 30, 2015, the District did not reported a payable for any outstanding amount of contributions to the Plan required for the fiscal year ended June 30, 2015.

### **HIS Pension Plan**

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended

by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

*Benefits Provided.* For the fiscal year ended June 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS Plan benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

*Contributions.* The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26 percent of payroll pursuant to Section 112.363, Florida Statutes. The District contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The District's contributions to the HIS Plan totaled \$436,734 for the fiscal year ended June 30, 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions.* At June 30, 2015, the District reported a net pension liability of \$10,747,345 for its proportionate share of the HIS Plan's net pension liability. The current portion of the net pension liability is the District's proportionate share of benefit payments expected to be paid within 1 year, net of the District's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The District's proportionate share of the net pension liability was based on the District's 2013-14 fiscal year contributions relative to the total 2013-14 fiscal year contributions of all participating members. At June 30, 2014, the District's proportionate share was 0.114941864 percent, which was an increase of 0.003170053 from its proportionate share measured as of June 30, 2013.

For the fiscal year ended June 30, 2015, the District recognized the HIS Plan pension expense of \$784,637. In addition, the District reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>
Change of assumptions	\$ 382,433
Net difference between projected and actual earnings on HIS pension plan investments	5,159
Changes in proportion and differences between District HIS contributions and proportionate share of HIS contributions	237,662
District contributions subsequent to the measurement date	<u>436,734</u>
<b>Total</b>	<b><u>\$ 1,061,988</u></b>

The deferred outflows of resources, totaling \$436,734 was related to pensions resulting from District contributions to the HIS Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2016	\$ 101,305
2017	101,305
2018	101,305
2019	101,305
2020	100,015
Thereafter	<u>120,019</u>
<b>Total</b>	<b><u>\$ 625,254</u></b>

Actuarial Assumptions. The total pension liability in the July 1, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Municipal bond rate	4.29 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the plan, the FRS Actuarial Assumptions Conference reviewed the actuarial assumptions for the plan.

Discount Rate. The discount rate used to measure the total pension liability was 4.29 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal

to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.29 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.29 percent) or 1 percentage point higher (5.29 percent) than the current rate:

	<b>1% Decrease (3.29%)</b>	<b>Current Discount Rate (4.29%)</b>	<b>1% Increase (5.29%)</b>
District's proportionate share of the net pension liability	\$ 12,224,234	\$ 10,747,345	\$ 9,514,565

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan. At June 30, 2015, the District did not report a payable for any outstanding amount of contributions to the HIS Plan required for the fiscal year ended June 30, 2015.

## **2. FRS – Defined Contribution Pension Plan**

The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. District employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected County Officers, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members. Allocations to the investment member's accounts during the 2014-15 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Elected County Officers	11.34
FRS, Senior Management Service	7.67

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2015, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the District.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The District's Investment Plan pension expense totaled \$680,029 for the fiscal year ended June 30, 2015.

## **E. Other Postemployment Benefit Obligations**

**Plan Description.** The Other Postemployment Benefits Plan (OPEB Plan) is a single-employer defined benefit plan administered by the District. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the District are eligible to participate in the District's four health and hospitalization plans as well as its self-insured dental plan. The District subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Additionally, certain retirees received insurance coverage at a lower rate (explicitly subsidized) premium rate than active employees prior to January 1, 2011. Effective January 1, 2011, the District ceased all explicit subsidies for retirees, but allows retirees to retain health benefits at actual cost as quoted by the insurance vendor.

In addition, the Board contributes \$40 per month for dental insurance premiums. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. The OPEB Plan does not issue a stand-alone report, and is not included in the report of a public employee retirement system or other entity.

**Funding Policy.** Plan contribution requirements of the District and OPEB Plan members are established and may be amended through recommendations of the Insurance Committee and action from the Board. The District has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation, and the OPEB Plan is financed on a pay-as-you-go basis. For the 2014-15 fiscal year, 44 retirees received other postemployment benefits. The District provided required contributions of \$287,595 toward the annual OPEB cost, net of retiree contributions totaling \$424,879, which represents 1.4 percent of covered payroll.

**Annual OPEB Cost and Net OPEB Obligation.** The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the District's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the District's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (service cost for 1 year)	\$ 299,313
Amortization of Unfunded Actuarial Accrued Liability	<u>335,090</u>
Annual Required Contribution	634,403
Interest on Net OPEB Obligation	62,554
Adjustment to Annual Required Contribution	<u>(148,938)</u>
Annual OPEB Cost (Expense)	548,019
Contribution Toward the OPEB Cost	<u>(287,595)</u>
Increase in Net OPEB Obligation	260,424
Net OPEB Obligation, Beginning of Year	<u>2,085,137</u>
Net OPEB Obligation, End of Year	<u>\$ 2,345,561</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2015, and the 2 preceding fiscal years, were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012-13	\$ 440,286	69.8%	\$ 1,802,027
2013-14	562,258	49.6%	2,085,137
2014-15	548,019	52.5%	2,345,561

**Funded Status and Funding Progress.** As of January 1, 2014, the most recent valuation date, the actuarial accrued liability for benefits was \$4,715,203, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$4,715,203 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$31,121,488, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 15.2 percent.

Actuarial valuations of an ongoing OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to financial statements presents multiyear trend information about whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Actuarial Methods and Assumptions.** Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's OPEB actuarial valuation as of January 1, 2014, used the entry age normal cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2015, and to estimate the District's 2014-15 fiscal year annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 3 percent rate of return on invested assets, which is the District's long-term expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 3 percent per year, and an annual healthcare cost trend rate of 1 percent initially beginning in January 2015, to 7 percent in January 2016, to 6.5 percent in January 2017, reduced to an ultimate rate of 5.46 percent in January 2020. The investment rate of return and payroll growth rate include a general price inflation of 3 percent. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a 14-year period. The remaining amortization period at June 30, 2015, was 13 years.

## F. Other Significant Commitments

**Encumbrances.** Appropriations in governmental funds are encumbered upon issuance of purchase orders for goods and services. Even though appropriations lapse at the end of the fiscal year, unfilled purchase orders of the current year are carried forward and the next fiscal year's appropriations are likewise encumbered.

The following is a schedule of encumbrances at June 30, 2015:

<b>Major Funds</b>					
<b>General</b>	<b>Special Revenue - Food Service</b>	<b>Special Revenue - Other</b>	<b>Capital Projects - Local Capital Improvement</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 324,560</u>	<u>\$ 12,765</u>	<u>\$ 79,054</u>	<u>\$ 951,111</u>	<u>\$ 306,599</u>	<u>\$ 1,674,089</u>

## G. Risk Management Programs

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; third party injuries and/or property damage and natural disasters. The Hendry County District School Board is a member of the South Central Educational Risk Management Program (SCERMP), a consortium under which eight district school boards have established a public entity risk sharing pool for property, general liability, automobile liability, workers' compensation, governmental crime, and other coverage deemed necessary by the members of SCERMP. Section 1001.42(12)(k), Florida Statutes, provides the authority for the District to enter into such a risk management program. The interlocal agreement and bylaws of SCERMP provide that risk of loss is transferred to the consortium. SCERMP is self-sustaining through member contributions (premiums), and purchases insurance coverage through commercial companies for claims in excess of specified amounts. Member school boards are also subject to supplemental contributions in the event of a deficiency, except to the extent that the deficiency results from a specific claim against a member school board in excess of the coverage available, then such deficiency is solely the responsibility of that member school board.

The Board of Directors for SCERMP is composed of superintendents and finance directors or an authorized representative of all participating districts. Ascension, Inc., serves as the third-party administrator, insurance broker, and fiscal agent for SCERMP.

Property damage coverage is managed by SCERMP by purchase of excess property coverage through commercial insurance carriers for property loss claims in excess of \$100,000 (except wind/flood). The named wind/hurricane deductible is 5 percent of replacement cost value with a minimum of \$100,000 per occurrence. The deductible for all other wind event is \$100,000. Special hazard flood area deductibles are \$500,000 per building and \$500,000 contents plus \$100,000 time element per occurrence. The flood deductible outside a special flood hazard area is \$100,000. SCERMP's purchased excess property loss limit during the 2014-15 fiscal year was \$100 million.

Workers' compensation claims are limited based on a per claim self-insured retention. The self-insured retention for the 2014-15 fiscal year was \$1 million. SCERMP purchases excess liability

coverage through a commercial insurance carrier, which covers workers' compensation losses in excess of the self-insured retention. Employer's liability is included subject to \$2 million per occurrence.

The District is protected by Section 768.28, Florida Statutes, under the Doctrine of Sovereign Immunity, as it is now written, as it may be amended by the Legislature in the future, which effectively limits the amount of liability of governmental entities for tort claims to \$200,000 per claim and \$300,000 per occurrence.

The District provides dental coverage on a self-insurance basis for eligible employees. Based on records, maintained by the fiscal agent, of premiums received for and claims (and other expenses) paid on behalf of Board employees and their dependents, the District reports this activity in an internal service fund, including an estimated incurred, but not reported, insurance claims payable at June 30, 2015.

The following schedule represents the changes in claims liability for the past 2 fiscal years for the District's self-insurance program:

Fiscal Year	Beginning-of-Fiscal-year Liability	Current-year Claims and Changes In Estimates	Claims Payments	Balance at Fiscal Year-End
2013-14	\$ 82,528	\$ 419,921	\$ (430,161)	\$ 72,288
2014-15	72,288	462,081	(462,314)	72,055

Health and hospitalization coverage is being provided by purchased commercial insurance through a minimum premium plan. The minimum premiums to be earned for all types of coverage are set forth in the contract. Premiums are payable monthly based on the total number of eligible employees. When earned premiums are greater than the sum of the incurred claims and a specified retention, the loss shall be paid to the plan up to the maximum due as set forth in the contract. Life insurance is purchased by the District for eligible employees. These transactions are accounted for in the governmental funds rather than the internal service fund.

Settled claims resulting from the risks described above have not exceeded commercial insurance coverage in the past 3 fiscal years.

## H. Long-Term Liabilities

### 1. Certificates of Participation

On December 15, 2005, the District issued Certificates of Participation, Series 2005-QZAB, under a special program whereby the certificates will mature in full on December 15, 2021, for the original issue of \$3,068,200. There is no interest cost for borrowing moneys under this program. The financing proceeds were used to acquire improvements at several designated schools, which are leased by the District from the Leasing Corporation. The District entered into a forward delivery agreement under which mandatory deposits (rent payments) of \$158,133 for 16 consecutive years began December 16, 2006. The forward delivery agreement provides a guaranteed investment return whereby the required deposits, along with the accrued interest, will

be sufficient to redeem the certificates at maturity. The invested assets accumulated pursuant to the forward delivery agreement are held under a trust agreement in the event of cancellation or default.

The schools designated for technology-related equipment and improvements under the Series 2005-QZAB certificates include: Eastside Elementary School, Westside Elementary School, Central Elementary School and LaBelle High School.

The following is a schedule by years of future minimum lease payments for the Series 2005-QZAB certificates with the present value of minimum lease payments as of June 30:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 3,068,200	\$ 3,068,200	\$ 0

## 2. Bonds Payable

Bonds payable at June 30, 2015, are as follows:

<u>Bond Type</u>	<u>Amount Outstanding</u>	<u>Interest Rates (Percent)</u>	<u>Annual Maturity To</u>
State School Bonds:			
Series 2014B, Refunding	\$ 377,000	2.0 - 5.0	2020
District Revenue Bonds:			
Series 1997	<u>300,000</u>	5.2	2017
Total Minimum Bond Payments	677,000		
Plus: Unamortized Premiums	<u>23,706</u>		
Total Bonds Payable	<u>\$ 700,706</u>		

The various bonds were issued to finance capital outlay projects of the District. The following is a description of the bonded debt issues:

### State School Bonds

These bonds are issued by the State Board of Education (SBE) on behalf of the District. The bonds mature serially, and are secured by a pledge of the District's portion of the State-assessed motor vehicle license tax. The State's full faith and credit is also pledged as security for these bonds. Principal and interest payments, investment of debt service fund resources, and compliance with reserve requirements are administered by the SBE and the SBA.

### District Revenue Bonds

These bonds are authorized by Chapter 69-1094, Laws of Florida, which provides that the bonds be secured from the pari-mutuel tax proceeds distributed annually to Hendry County from the State's Pari-mutuel Tax Collection Trust Fund pursuant to Chapter 550, Florida Statutes (effective July 1, 2000, tax proceeds are distributed pursuant to Section 212.20(6)(d)7.a., Florida Statutes

(2001), now Section 212.20(6)(d)6.a., Florida Statutes). The annual distribution is remitted by the Florida Department of Financial Services to the District. As required by the bond resolution, the District has established the sinking fund and reserve account and has accumulated and maintained adequate resources in the sinking fund and reserve account.

The District has pledged a total of \$323,920 of pari-mutuel tax revenues in connection with the District Revenue Bonds of 1997, described above. During the 2014-15 fiscal year, the District recognized pari-mutuel tax revenues totaling \$143,300 and expended \$107,940 (75.3 percent) of these revenues for debt service directly collateralized by these revenues. The pledged pari-mutuel tax revenues are committed until final maturity of the debt on November 2017. Assuming a normal growth rate of 0 percent in the collection of pari-mutuel tax funds, approximately 75.3 percent of this revenue stream has been pledged in connection with debt service on the revenue bonds.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2015, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
State School Bonds:			
2016	\$ 216,142	\$ 196,000	\$ 20,142
2017	116,840	108,000	8,840
2018	62,440	59,000	3,440
2019	7,490	7,000	490
2020	7,140	7,000	140
Total State School Bonds	<u>410,052</u>	<u>377,000</u>	<u>33,052</u>
District Revenue Bonds:			
2016	108,130	95,000	13,130
2017	108,060	100,000	8,060
2018	107,730	105,000	2,730
Total District Revenue Bonds	<u>323,920</u>	<u>300,000</u>	<u>23,920</u>
<b>Total</b>	<u>\$ 733,972</u>	<u>\$ 677,000</u>	<u>\$ 56,972</u>

### 3. Defeased Debt

On December 2, 2014, the FDOE issued SBE Capital Outlay Refunding Bonds, Series 2014B, with an average interest rate of 5 percent, to refund callable portions of the District's State School Bonds, Series 2005A and Series 2005B. The District's portion of Series 2014B bonds, \$377,000, was used to refund the \$205,000 principal amount of the District's Capital Outlay Bonds, Series 2005 A, and to refund the \$195,000 principal amount of the District's Capital Outlay Bonds Series 2005B that mature on or after January 1, 2016. The District's pro rata share of net proceeds totaling \$414,319 (including premium received of \$29,633 after deduction of \$647 by the FDOE for the District's pro rata share of underwriting fees, and other issuance costs, and less \$8,333 of

accrued interest) was used to call the District's portion of the remaining outstanding debt on January 1, 2015.

#### 4. Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Certificates of Participation Payable	\$ 3,068,200	\$ -	\$ -	\$ 3,068,200	\$ -
Bonds Payable	1,027,919	406,633	733,846	700,706	291,000
Other Postemployment Benefits Payable	2,085,137	548,019	287,595	2,345,561	-
Compensated Absences Payable	5,135,142	561,971	692,200	5,004,913	692,200
Net Pension Liability (1)	24,115,575	4,192,127	12,003,110	16,304,592	360,791
<b>Total Governmental Activities</b>	<b>\$ 35,431,973</b>	<b>\$ 5,708,750</b>	<b>\$ 13,716,751</b>	<b>\$ 27,423,972</b>	<b>\$ 1,343,991</b>

Note: (1) The beginning balance resulted from the implementation of GASB Statement No. 68.

For the governmental activities, compensated absences, pensions, and other postemployment benefits are generally liquidated with resources of the General Fund

#### I. Fund Balance Reporting

In addition to committed and assigned fund balance categories discussed in the **Fund Balance Policies** note disclosure, fund balances may be classified as follows:

- **Nonspendable Fund Balance**. Nonspendable fund balance is the net current financial resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Generally, not in spendable form means that an item is not expected to be converted to cash.
- **Restricted Fund Balance**. Restricted fund balance is the portion of fund balance on which constraints have been placed by creditors, grantors, contributors, laws or regulations of other governments, constitutional provisions, or enabling legislation. Restricted fund balance places the most binding level of constraint on the use of fund balance.
- **Unassigned Fund Balance**. The unassigned fund balance is the portion of fund balance that is the residual classification for the General Fund. This balance represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned for specific purposes.

## J. Interfund Receivables and Payables

The following is a summary of interfund receivables and payables reported in the fund financial statements:

<u>Funds</u>	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
Major:		
General	\$ 10,575	\$ -
Special Revenue:		
Other	-	10,575
<b>Total</b>	<b>\$ 10,575</b>	<b>\$ 10,575</b>

The interfund receivables and payables represent the payment of expenditures by one fund for another fund and will be repaid within 12 months.

## K. Revenues

### 1. Schedule of State Revenue Sources

The following is a schedule of the District's State revenue sources for the 2014-15 fiscal year:

<u>Source</u>	<u>Amount</u>
Florida Education Finance Program	\$ 29,855,832
Categorical Educational Program - Class Size Reduction	7,589,739
Voluntary Prekindergarten Program	356,949
Motor Vehicle License Tax (Capital Outlay and Debt Service)	283,832
Workforce Performance Initiative	228,825
Gross Receipts Tax (Public Education Capital Outlay)	142,426
School Recognition	132,183
Food Service Supplement	56,876
Mobile Home License Tax	35,736
Discretionary Lottery Funds	24,325
Miscellaneous	303,752
<b>Total</b>	<b>\$ 39,010,475</b>

Accounting policies relating to certain State revenue sources are described in Note I.G.2.

### 2. Property Taxes

The following is a summary of millages and taxes levied on the 2014 tax roll for the 2014-15 fiscal year:

<u>General Fund</u>	<u>Millages</u>	<u>Taxes Levied</u>
Nonvoted School Tax:		
Required Local Effort	5.038	\$ 9,394,022
Basic Discretionary Local Effort	0.748	1,394,733
<b><u>Capital Projects - Local Capital Improvement Fund</u></b>		
Nonvoted Tax:		
Local Capital Improvements	<u>1.500</u>	<u>2,796,924</u>
<b>Total</b>	<b><u>7.286</u></b>	<b><u>\$ 13,585,679</u></b>

## L. Interfund Transfers

The following is a summary of interfund transfers reported in the fund financial statements:

<u>Funds</u>	<u>Interfund</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
Major:		
Capital Projects:		
Local Capital Improvement	\$ -	\$ 161,225
Nonmajor Governmental:	<u>286,225</u>	<u>125,000</u>
<b>Total</b>	<b><u>\$ 286,225</u></b>	<b><u>\$ 286,225</u></b>

Capital outlay ad valorem tax moneys were transferred from the Capital Projects – Local Capital Improvement Fund to the nonmajor Debt Service – QZAB Fund for debt service sinking fund deposits. District revenue bonds moneys were transferred from the nonmajor Debt Service – Special Act Bonds to the nonmajor Capital Projects – Special Act Bonds.

## OTHER REQUIRED SUPPLEMENTARY INFORMATION

### Budgetary Comparison Schedule General and Major Special Revenue Funds For the Fiscal Year Ended June 30, 2015

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Intergovernmental:				
Federal Through State and Local	\$ 250,000	\$ 266,639	\$ 266,639	\$ -
State	37,608,107	38,297,441	38,388,248	90,807
Local:				
Property Taxes	10,640,278	10,447,529	10,447,529	-
Charges for Service - Food Service	-	-	-	-
Miscellaneous	597,500	956,382	953,419	(2,963)
Total Local Revenues	<u>11,237,778</u>	<u>11,403,911</u>	<u>11,400,948</u>	<u>(2,963)</u>
<b>Total Revenues</b>	<u>49,095,885</u>	<u>49,967,991</u>	<u>50,055,835</u>	<u>87,844</u>
<b>Expenditures</b>				
Current - Education:				
Instruction	32,101,273	31,688,443	31,002,209	686,234
Student Personnel Services	1,732,163	1,848,867	1,829,979	18,888
Instructional Media Services	729,814	763,118	748,493	14,625
Instruction and Curriculum Development Services	449,619	600,521	520,321	80,200
Instructional Staff Training Services	81,937	116,687	75,455	41,232
Instructional - Related Technology	445,503	403,313	389,527	13,786
Board	728,212	781,406	622,966	158,440
General Administration	1,024,270	1,261,690	919,958	341,732
School Administration	3,551,911	3,920,201	3,907,187	13,014
Facilities Acquisition and Construction	3,515	17,560	9,260	8,300
Fiscal Services	714,799	778,195	669,029	109,166
Food Services	-	-	-	-
Central Services	304,624	359,638	348,776	10,862
Student Transportation Services	3,028,736	3,222,723	2,817,746	404,977
Operation of Plant	4,509,633	4,583,295	4,254,445	328,850
Maintenance of Plant	1,448,684	1,528,013	1,432,978	95,035
Administrative Technology Services	1,162,924	1,158,528	1,002,035	156,493
Fixed Capital Outlay:				
Other Capital Outlay	-	122,024	122,024	-
<b>Total Expenditures</b>	<u>52,017,617</u>	<u>53,154,222</u>	<u>50,672,388</u>	<u>2,481,834</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(2,921,732)</u>	<u>(3,186,231)</u>	<u>(616,553)</u>	<u>2,569,678</u>
<b>Other Financing Sources</b>				
Loss Recoveries	-	212,947	212,947	-
<b>Net Change in Fund Balances</b>	(2,921,732)	(2,973,284)	(403,606)	2,569,678
Fund Balances, Beginning	11,363,624	11,363,624	11,363,624	-
<b>Fund Balances, Ending</b>	<u>\$ 8,441,892</u>	<u>\$ 8,390,340</u>	<u>\$ 10,960,018</u>	<u>\$ 2,569,678</u>

Special Revenue - Food Service Fund				Special Revenue - Other Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
\$ 3,470,000	\$ 3,470,000	\$ 3,638,375	\$ 168,375	\$ 8,950,606	\$ 9,884,552	\$ 7,526,244	\$ (2,358,308)
58,880	58,880	56,876	(2,004)	-	-	-	-
-	-	-	-	-	-	-	-
657,000	657,000	480,089	(176,911)	-	-	-	-
1,800	1,800	5,113	3,313	-	-	-	-
658,800	658,800	485,202	(173,598)	-	-	-	-
4,187,680	4,187,680	4,180,453	(7,227)	8,950,606	9,884,552	7,526,244	(2,358,308)
-	-	-	-	5,878,725	6,404,434	4,936,181	1,468,253
-	-	-	-	713,741	704,985	528,577	176,408
-	-	-	-	86,604	89,047	43,596	45,451
-	-	-	-	824,896	986,796	876,171	110,625
-	-	-	-	1,058,138	1,251,674	819,380	432,294
-	-	-	-	5,534	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	238,640	248,001	180,929	67,072
-	-	-	-	5,000	5,000	-	5,000
-	-	-	-	-	263	263	-
-	-	-	-	-	-	-	-
4,532,061	4,687,734	3,734,391	953,343	-	-	-	-
-	-	-	-	-	6,787	6,787	-
-	-	-	-	137,002	102,251	42,590	59,661
-	-	-	-	2,236	300	300	300
-	-	-	-	-	213	213	-
-	-	-	-	-	-	-	-
-	56,327	56,327	-	-	84,801	84,801	-
4,532,061	4,744,061	3,790,718	953,343	8,950,516	9,884,552	7,519,488	2,365,064
(344,381)	(556,381)	389,735	946,116	90	-	6,756	6,756
-	-	-	-	-	-	-	-
(344,381)	(556,381)	389,735	946,116	90	-	6,756	6,756
1,699,449	1,699,449	1,699,449	-	1,340	1,340	1,340	-
\$ 1,355,068	\$ 1,143,068	\$ 2,089,184	\$ 946,116	\$ 1,430	\$ 1,340	\$ 8,096	\$ 6,756

**Schedule of Funding Progress –  
Other Postemployment Benefits Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Accrued Liability (AAL) (1) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>Percentage of Covered Payroll [(b-a)/c]</b>
01/01/09	\$ -	\$ 9,717,244	\$ 9,717,244	0.0%	\$ 31,639,539	30.7%
01/01/12	-	4,134,396	4,134,396	0.0%	26,473,426	15.6%
01/01/14	-	4,715,203	4,715,203	0.0%	31,121,488	15.2%

Note: (1) The District's OPEB actuarial valuation used the entry age normal cost method to estimate the actuarial accrued liability.

**Schedule of the District's Proportionate Share  
of the Net Pension Liability –  
Florida Retirement System Pension Plan (1)**

	<u>2014</u>	<u>2013</u>
District's proportion of the FRS net pension liability	0.091080451%	0.083559847%
District's proportionate share of the FRS net pension liability	\$ 5,557,247	\$ 14,384,369
District's covered-employee payroll	\$ 28,758,181	\$ 27,840,222
District's proportionate share of the FRS net pension liability as a percentage of its covered-employee payroll	19.32%	51.67%
FRS Plan fiduciary net position as a percentage of the total pension liability	96.09%	88.54%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

**Schedule of District Contributions –  
Florida Retirement System Pension Plan (1)**

	<u>2015</u>	<u>2014</u>
Contractually required FRS contribution	\$ 2,235,486	\$ 1,995,048
FRS contributions in relation to the contractually required contribution	<u>(2,235,486)</u>	<u>(1,995,048)</u>
FRS contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 28,822,118	\$ 28,758,181
FRS contributions as a percentage of covered-employee payroll	7.76%	6.94%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

**Schedule of the District's Proportionate Share  
of the Net Pension Liability –  
Health Insurance Subsidy Pension Plan (1)**

	<u>2014</u>	<u>2013</u>
District's proportion of the HIS net pension liability	0.114941864%	0.111771811%
District's proportionate share of the HIS net pension liability	\$ 10,747,345	\$ 9,731,206
District's covered-employee payroll	\$ 34,152,530	\$ 32,430,669
District's proportionate share of the HIS net pension liability as a percentage of its covered-employee payroll	31.47%	30.01%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.99%	1.78%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

**Schedule of District Contributions –  
Health Insurance Subsidy Pension Plan (1)**

	<u>2015</u>	<u>2014</u>
Contractually required HIS contribution	\$ 436,734	\$ 393,752
HIS contributions in relation to the contractually required contribution	<u>(436,734)</u>	<u>(393,752)</u>
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 34,662,040	\$ 34,152,530
HIS contributions as a percentage of covered-employee payroll	1.26%	1.15%

Note: (1) The amounts presented for each fiscal year were determined as of June 30.

<b>NOTES TO REQUIRED SUPPLEMENTARY INFORMATION</b>
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## 1. Budgetary Basis of Accounting

The Board follows procedures established by State statutes and State Board of Education (SBE) rules in establishing budget balances for governmental funds, as described below:

- Budgets are prepared, public hearings are held, and original budgets are adopted annually for all governmental fund types in accordance with procedures and time intervals prescribed by law and SBE rules.
- Appropriations are controlled at the object level (e.g., salaries, purchased services, and capital outlay) within each activity (e.g., instruction, student transportation services, and school administration) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report.
- Budgets are prepared using the same modified accrual basis as is used to account for governmental funds.

- Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Appropriations lapse at fiscal year-end and encumbrances outstanding are honored from the subsequent year's appropriations.

## **2. Schedule of Funding Progress – Other Postemployment Benefits Plan**

The January 1, 2014, unfunded actuarial accrued liability of \$ 4,715,203 was higher than the January 1, 2012, liability of \$4,134,396 as a result of benefit changes and other changes in liabilities and costs as discussed below:

- The total cost of coverage per employee on January 1, 2014, was much lower than projected, decreasing cost and liability.
- The number of retirees receiving postemployment healthcare benefits decreased from 59 to 42, decreasing the cost and liability.
- Retirees electing to continue coverage migrated from more generous plan options to less expensive options. These changes decreased cost and liability.
- The ability amortization period was shortened from 16 years to 14 years. The change has no impact on the liability, but increases the annual OPEB cost as the expense recognition is spread over fewer years.
- The provisions of the Affordable Care Act, specifically the Excise Tax on High-Cost Employer Health Plans, will be effective in calendar year 2018 resulting in increased cost and liability.

## **3. Schedule of Net Pension Liability and Schedule of Contributions – Florida Retirement System Pension Plan**

*Changes of Assumptions.* As of June 30, 2014, the inflation rate assumption was decreased from 3 percent to 2.60 percent, the real payroll growth assumption was decreased from 1 percent to 0.65 percent, and the overall payroll growth rate assumption was decreased from 4 percent to 3.25 percent. The long-term expected rate of return decreased from 7.75 percent to 7.65 percent.

## **4. Schedule of Net Pension Liability and Schedule of Contributions – Health Insurance Subsidy Pension Plan**

*Changes of Assumptions.* The municipal rate used to determine total pension liability decreased from 4.63 percent to 4.29 percent.

# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

## Hendry County District School Board Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass -Through Grantor Number</u>	<u>Amount of Expenditures (1)</u>
<b>United States Department of Agriculture:</b>			
Indirect:			
Florida Department of Agriculture and Consumer Services:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	14002	\$ 629,669
National School Lunch Program	10.555 (2)	14001, 14003	2,845,499
Summer Food Service Program for Children	10.559	13006, 13007, 14006, 14007	<u>132,133</u>
<b>Total United States Department of Agriculture</b>			<u>3,607,301</u>
<b>United States Department of Justice:</b>			
Indirect:			
Hendry County Board of County Commissioners:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-JAGC-HEND-2-B2-254	<u>21,711</u>
<b>Total United States Department of Justice</b>			<u>21,711</u>
<b>United States Department of Education:</b>			
Indirect:			
Florida Department of Education:			
Special Education Cluster:			
Special Education - Grants to States	84.027 (3)	262, 263	1,691,117
Special Education - Preschool Grants	84.173 (4)	267	37,449
Highlands County District School Board:			
Special Education - Grants to States	84.027 (3)	None	53,986
Special Education - Preschool Grants	84.173 (4)	None	7,533
Putnam County District School Board:			
Special Education - Grants to States	84.027 (3)	None	<u>806</u>
<b>Total Special Education Cluster</b>			1,790,891
Florida Department of Education:			
Adult Education - Basic Grants to States	84.002	191, 193	139,754
Title I Grants to Local Educational Agencies	84.010	212, 226	3,370,759
Migrant Education - State Grant Program	84.011	217	1,072,741
Career and Technical Education - Basic Grants to States	84.048	161	152,990
Education for Homeless Children and Youth	84.196	127	21,579
Rural Education	84.358	110	125,362
English Language Acquisition State Grants	84.365	102	182,512
Improving Teacher Quality State Grants	84.367	224	568,430
ARRA - State Fiscal Stabilization Fund (SFSF) -			
Race-to-the-Top Incentive Grants, Recovery Act	84.395 (5)	RA111	92,394
Florida Gulf Coast University:			
Special Education - State Personnel Development	84.323	None	48,937
Highlands County District School Board:			
ARRA - State Fiscal Stabilization Fund (SFSF) -			
Race-to-the-Top Incentive Grants, Recovery Act	84.395 (5)	None	<u>1,336</u>
<b>Total United States Department of Education</b>			<u>7,567,685</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 11,196,697</u>

Notes: (1) Basis of presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.

(2) Noncash Assistance – National School Lunch Program. Includes \$221,935 of donated food used during the fiscal year. Donated foods are valued at fair value as determined at the time of donation.

(3) Special Education – Grants to States. Total expenditures for CFDA No. 84.027: \$1,745,909.

(4) Special Education – Preschool Grants. Total expenditures for CFDA No. 84.173: \$44,982.

(5) ARRA - State Fiscal Stabilization Fund (SFSF) – Race-To-The-Top Incentive Grants, Recovery Act. Total expenditures for CFDA No. 84.395: \$93,730.



Sherrill F. Norman, CPA  
Auditor General

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The President of the Senate, the Speaker of the  
House of Representatives, and the  
Legislative Auditing Committee

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hendry County District School Board, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 11, 2016, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the school internal funds and the Hendry Public Schools Foundation, Inc., as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that are discussed in the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

### **District's Response to Findings**

District's response to the findings identified in our audit is described in the accompanying **MANAGEMENT'S RESPONSE**. District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of the **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS** is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 11, 2016



Sherrill F. Norman, CPA  
Auditor General

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The President of the Senate, the Speaker of the  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

### Report on Compliance for Each Major Federal Program

We have audited the Hendry County District School Board's compliance with the types of compliance requirements described in the *OMB Compliance* Supplement that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2015. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the accompanying **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the fiscal year ended June 30, 2015.

### **Report on Internal Control Over Compliance**

District management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA  
Tallahassee, Florida  
March 11, 2016

# **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

## **SUMMARY OF AUDITOR'S RESULTS**

### **Financial Statements**

Type of auditor's report issued:	Unmodified.
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

### **Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
CFDA Numbers: 10.553, 10.555, and 10.559 84.011	Name of Federal Program or Cluster: Child Nutrition Cluster Migrant Education – State Grant Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$335,900
Auditee qualified as low-risk auditee?	Yes

## **ADDITIONAL MATTERS**

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### **Finding 1: Adult General Education Classes**

State law<sup>1</sup> defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and General Appropriations Act<sup>2</sup> proviso language requires each school district to report enrollment for adult general education programs in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.<sup>3</sup>

FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The procedures also require school districts to develop a procedure for withdrawing students for nonattendance and provide that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance. There was also a minimum enrollment threshold of 12 hours of attendance for each program that must be met before a student can be counted for funding purposes.

For the 2014-15 fiscal year, the District reported 20,246 instructional contact hours for 29 adult general education classes provided to 158 students. As part of our audit, we reviewed District records for 2,981 hours reported for 30 students enrolled in 19 adult general education classes. We found that instructional contact hours were over reported a total of 678 net hours, including 831 over-reported hours (ranging from 4 to 113 hours) for 18 students and 153 under-reported hours (ranging from 2 to 74 hours) for 8 students. In response to our inquiry, District personnel indicated that the misreported hours occurred mainly because they did not adjust the instructional contact hours reported to reflect actual attendance. The full extent of the class hours that may have been misreported for all 158 adult general education students was not readily available.

Since funding is based, in part, on enrollment data reported to the FDOE, it is important that the District report accurate data. A similar finding was noted in our report No. 2015-137.

**Recommendation: The District should strengthen controls to ensure instructional contact hours for adult general education classes are accurately reported to the FDOE. The District should also determine to what extent adult general education hours were misreported for the 2014-15 fiscal year and contact the FDOE for proper resolution.**

### **Finding 2: Information Technology – Access Privileges**

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned responsibilities. Periodic

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<sup>1</sup> Section 1004.02(3), Florida Statutes.

<sup>2</sup> Chapter 2014-51, Laws of Florida, Specific Appropriation 122.

<sup>3</sup> FDOE Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

reviews of assigned IT access privileges are necessary to ensure that employees can only access those IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible duties.

Our test of selected access privileges to the District's human resources (HR) application disclosed that three employees (Senior Payroll Specialist; Payroll Specialist; and Payroll Analyst) in the Payroll Department had the ability to add an employee, update employee information, and update an employee's pay rate, pay grade, and job code in the HR system. The ability to update critical data within the HR application, including changing employee information, is typically limited to employees assigned to the HR Department. Additionally, District personnel indicated that they had not performed any reviews of employee access privileges. In response to our inquiry, District personnel indicated that the access privileges for all employees with access to finance, payroll, and HR applications will be reviewed in the 2015-16 fiscal year.

Although the District had certain controls (e.g., supervisory monitoring of employee activities and expenditures) that somewhat mitigated the noted deficiencies, the existence of these unnecessary and inappropriate access privileges increased the risk of unauthorized disclosure, modification, or destruction of District data or IT resources. A similar finding was noted in our report No. 2015-137.

**Recommendation: The District should continue efforts to ensure the assignment of appropriate access privileges, periodic review of access privileges, and timely removal or adjustment of any unnecessary or inappropriate access detected.**

### **Finding 3: Information Technology – Risk Assessment**

Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps entity personnel understand the greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessments, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, help support management's decisions in establishing cost effective measures to mitigate risk and, where appropriate, to formally accept residual risk.

Although the District had informally considered external and internal risks based on various tests and reviews conducted within selected departments and identified security controls such as selected configuration settings to mitigate these risks, the District had not developed a comprehensive, written IT risk assessment. A comprehensive, written IT risk assessment would consider specific threats and vulnerabilities at the District, system, and application levels. A comprehensive, written IT risk assessment would also document the range of risks that District systems and data may be subject to, including those posed by internal and external users, as well as plans for the mitigation of identified risks. In response to our inquiry, District personnel indicated that the IT Department intends to complete a comprehensive, written IT risk assessment by June 30, 2016. The absence of a comprehensive, written IT risk assessment may lessen the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through appropriate controls. A similar finding was noted in our report No. 2015-137.

**Recommendation:** District management should continue efforts to develop a comprehensive, written IT risk assessment to provide a documented basis for managing IT-related risks.

## ***PRIOR AUDIT FOLLOW-UP***

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The District had taken corrective actions for findings included in our report No. 2015-137, except as noted Findings 1, 2, and 3 and shown in Table 1.

**Table 1**  
**Findings Also Noted**  
**in the Previous Audit Report**

2013-14 Fiscal Year  
Audit Report No. 2015-137,

<b>Finding</b>	<b>Finding</b>
1	4
2	5
3	6

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – FEDERAL AWARDS**

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Listed below is the District's summary of the status of prior audit findings on Federal programs:

<b>Audit Report No. and Federal Awards Finding No.</b>	<b>Program/Area</b>	<b>Brief Description</b>	<b>Status</b>	<b>Comments</b>
2015-137		There were no prior Federal audit findings.		

# MANAGEMENT'S RESPONSE

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## Hendry County School Board

Paul K. Puletti  
*Superintendent*

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March 11, 2016

Mrs. Sherrill F. Norman, CPA  
Office of the Auditor General  
G47 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450

Dear Mrs. Norman:

Pursuant to the provisions of Section 11.45 (4) (d), Florida Statutes herewith is the submitted statement of explanation for proposed action concerning the preliminary and tentative audit findings of the Hendry County District School Board for the fiscal year ending June 30, 2015.

### Adult General Education Classes

The District will strengthen controls to ensure instructional contact hours for adult general education classes are accurately reported to the FDOE. The District will also determine to what extent adult education hours were misreported for the 2014-15 fiscal year and contact the FDOE for proper resolution.

### Information Technology – Access Privileges

The District will continue efforts to ensure the assignment of appropriate access privileges, periodic review of access privileges, and timely removal or adjustment of any unnecessary or inappropriate access detected.

### Information Technology – Risk Assessment

District management will continue efforts to develop a comprehensive, written IT risk assessment to provide a documented basis for managing IT-related risks.

Sincerely yours,

A handwritten signature in black ink that reads "Paul K. Puletti".

Paul K. Puletti  
Superintendent

PKP:bt